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Ranchers seek lessons in swindle

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The Associated Press

LUBBOCK - The collapse of a Midwest cattle brokerage company that owes hundreds of ranchers as much as \$130 million could result in some going under and has others wondering if regulatory changes are needed to prevent similar swindles in the future.

Federal agriculture officials filed a complaint last month against Indiana-based Eastern Livestock Co., LLC, accusing it of bouncing checks for livestock purchases and failing to maintain an adequate bond to cover its debts. The company owes money to about 740 ranchers in 30 states, according to the U.S. Department of Agriculture. Three of those owed money have filed a lawsuit to try to force Eastern into involuntary bankruptcy.

The average loss of about \$175,000 per rancher is enough to put some out of business, said David Scott, president of the Texas and Southwestern Cattle Raisers Association. Many ranchers, unaware that Eastern's checks were no good, tried to pay bills and ended up writing bad checks themselves, ranchers said.

Eastern made money mainly by buying calves throughout the South and selling them to feed lots in big cattle states, including Texas and Oklahoma, where they were fattened for slaughter. Federal regulations require such companies to have sufficient bond to cover two days of business activity, although the bond can be less if the two-day amount is more than \$75,000.

Eastern's bond was only \$875,000 even though it was buying what Lane Broadbent of KIS Futures in Oklahoma City described as "monstrous amounts" of cattle each week. Broadbent is among those who advocate an escrow system in which money from cattle buyers would be held in an account until the animals were delivered, and then ranchers would be paid. Now, Broadbent said, some ranchers deliver animals before a buyer's check has cleared. They should be more careful, he said.

"Something's got to change or this is going to be a problem for a long time," Broadbent said. "There's too many rotten people for it still be dealt with on a handshake. We've trusted too much."

The USDA ordered Eastern to increase its bond from \$875,000 to \$1.15 million earlier this year, but the company ignored the order and the agency doesn't have the authority to suspend companies' operations when they don't have adequate bonds.

Scott said the government needs greater enforcement power, but others said they didn't think that was the answer in a fast-moving business like cattle trading.

"It's just impractical," Texas rancher John Welch said. "When you're in business there's not enough time - too many deals to try to keep up with it."

Welch said he sold a couple of hundred head of cattle to Eastern about a month before it collapsed. His check, unlike scores of others, didn't bounce.

Many cattle producers still make deals using "faith and a handshake," just like they've done for decades, said Welch, who manages up to 10,000 head of cattle on Spade Ranches across West Texas. The key, he said, is "try to know who you're doing business with."

That didn't help Lynn Hirsch, of Shelbyville, Ky., who never got paid for 51 Holstein steers that Eastern bought from him. Hirsch wouldn't say how much he lost but said the animals "were worth a lot." He described Eastern as "a large, reputable company" and said he didn't know how future fraud could be prevented.

"I wish to hell I knew," Hirsch said. "Livestock people have worked on a handshake. We deliver cattle and trust that we'll get payment in the next two to three days by mail. I just don't know what could be done."


But, he also said a stockyard in Lexington, Ky., has a new policy requiring that all cattle be paid for before they leave the yard. He suspected it was a result of the trouble at Eastern.

As of Nov. 22, the U.S. Department of Agriculture's Grain Inspection, Packers and Stockyards Administration had documented \$81 million in returned checks that Eastern issued between Nov. 3 and Nov. 9. It had received 250 claims totaling \$7.4 million against the company's bond. The Justice Department is investigating.

But while ideas are being tossed about, those in the industry said they have no sure-fire answers on how to prevent similar problems in the future.

"I don't think anyone knows enough yet to say, 'Where do we go from here?'" said Ross Wilson, president and chief executive officer of Texas Cattle Feeders Association. "There are a lot of people asking similar questions, and I have not heard any good answers yet."

Associated Press writer Joe Edwards in Nashville, Tenn., contributed to this report.

 Shelby County, Ky., farmer Lynn Hirsch stands next to Red Angus crossed feeder cattle at his Bull Run Farm. Hirsch is trying obtain compensation for 51 holstein steers he sold to Easterl Livestock Co. for which he was never paid. [1]

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